Rules of Client Engagement

When a Major Plan Sponsor Says Yes, the Work Has Only Just Begun

by CAROL CARANGELO

Remember the old television show, *The Dating Game*? Based on a handful of questions, some nervous guy or girl was supposed to select a companion for a special (carefully chaperoned) date in the hope of discovering lasting romance.

Finding the right DC provider can feel a lot like the dating game—a public courtship with a very uncertain outcome. Of course, questions asked of a prospective DC provider go deeper than the interviews on the show. And plan sponsors know to look beyond first impressions and ask: What will you bring to the relationship? What type of experience and history do you have? How supportive do you promise to be?

Understandably, questions tend to be about what a plan sponsor wants and not necessarily what it needs. After all, bringing in a new target date fund provider is rare, and it's likely that very few people on the team have been through the process before. With dozens of moving parts to any implementation and an untold number of potentially complicating factors, it is difficult to know what's really important.

In order to give plan sponsors a better sense of what they really need from potential suitors, let's take a look inside one complex implementation and the steps that BlackRock DC took to make it as seamless as possible.

STARTING THE COURTSHIP

A large institutional sponsor was looking for a new target date provider who could also assist with a major target date fund conversion. Amid the transition, the sponsor was also changing recordkeepers. The sponsor knew that the implementation might get complicated and said that BlackRock's operational capabilities were a differentiating factor in the selection process.

As more decisions were made by the investment committee, the complexity of the transition grew. The sponsor decided to eliminate a balanced fund and terminate a European equity manager and map those assets into the target date fund. Ultimately, the engagement involved managing the transition of more than $1B in assets, including the target date suite and two different mutual funds from different legacy managers. In addition, one of the legacy managers proactively reached out to engage BlackRock in discussions about how we could help support them during the transition.

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BlackRock's DC Portfolio Operations and Client Servicing Team responded to the challenge by examining the situation to see how they could best leverage their resources and expertise to address the complex situation. The ability of the team to demonstrate how it planned to use its experience in implementation and service to address the situation was critical, says Bob Gain, head of the Portfolio Operations & Client Servicing team.

"We knew the legacy funds were experiencing heavy redemptions, so we wanted to be proactive by coming up with a plan that would ensure participants were treated fairly," he explains. "Advance planning was essential and it was key to the success of this partnership."

The first task at hand was to work with the sponsor to determine whether the assets from the legacy providers would involve cash, an in-kind transaction or both, says Peter Williams, of the DC Client Servicing team. "It was important that we settled that issue as soon as we could, since an in-kind transaction would have been much more complex."

"We developed a series of scenarios that really ranged the gamut. We were prepared for just about anything," says Laraine McKinnon, relationship manager for BlackRock's DC Institutional team.

"In the end, all of the managers stepped up to enable a more straightforward transfer of funds, delivering in cash," she says. "But because of some mismatches, we still had to develop some unique trading and settlement strategies to protect the transfer, while preserving economies of scale."

FROM HIGH TOUCH TO HIGH TECH

BlackRock's Implementation team determined that the best way to coordinate the transfer of assets out of the legacy funds was to develop a customized, non-standard trading and settlement process.

In most conversions, standard settlement is T+1 (Transaction date plus 1 day). But in this case, the team structured a customized split settlement, consisting of T+1 and T+3, where a portion of the assets in each target date fund were settled next day and the remainder over the course of three days. The split settlement provided the flexibility that the legacy manager needed in order to deliver cash for the transition.

"Planning and bringing ideas to the table is just one element of success."

To minimize any potential gap risk between the trade date and the market open on trade date plus one, estimated trades were pre-notified through close coordination with the recordkeeper and BlackRock's DC portfolio management team.

"The split settlement was the most efficient way to safely coordinate the transition of assets from the legacy target date funds into our target date funds," explains Dan Basile, Manager of Implementations & Plan Design.

"During this engagement, we not only devoted a lot of time to managing the technical detail, but we also had to spend a lot of time educating other parties about the rationale for the process so that we could all make sure that we were on the same page," Basile says.

Another challenge to the onboarding was the change of recordkeeper coincident with the trade date for the asset transition. The Implementation Team worked closely with both the legacy recordkeeper and the new recordkeeper throughout the planning process.

"We developed a contingency plan preparing for any breakdown in data transfer between the old recordkeeper and the new recordkeeper, and a detailed plan just in case the recordkeeper could not provide timely estimates for pre-notification of the trades involved in the conversion," explains Bob Gain. The contingency plans included three rounds

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WE KNOW WHAT WORKS—
SO WHY AREN'T WE DOING IT?

Implementations have many stages, milestones and checkpoints. Throughout the process, the DC Portfolio Operations and Client Servicing team keeps charts informed of progress, outstanding items and next steps.

1 PRE-IMPLEMENTATION

Plan

- Kickoff meeting
- Communications kickoff meeting
- Service provider coordination
- Mapping/enrollment strategy finalization
- Project Workbook and contact list distribution
- Initial mapping estimates
- Plan/trust documentation provided to BlackRock

Coordinate

- Contracting checklist
- Client reporting and client order management set up
- Coordination on new funds/accounts
- Initial participant communication
- Refined mapping estimates

2 EXECUTION

Manage

Occurs at trade date–3 days

- Letter of Direction with final mapping estimates
- Pre-notified trades to minimize gap risk

Mapping

Occurs at trade date and trade date +1 day

- Execution of mapping trades at market close
- Recordkeeper sends final orders by cut-offs on trade date +1 day
- Custodian to send wires on trade date +1 day for settlement

3 POST-TRADE DATE PROGRESSION

Monitor

- Fund fact sheets available
- Participants able to make standard transactions
- Pipeline management coordinating large flows

Evolve

- Share industry trends, best practices, and thought leadership
- Discuss plan design alternatives and transition strategies
- Ongoing refinement of operational processes

of back-up conversion data to ensure that the flow of assets could be anticipated in the event of a system failure or interruption. They also structured an interim reporting process for the new recordkeeper, which clearly detailed the process around the non-standard split settlement as cash flows had to follow the trade in two tranches.

DELIVERING PERSPECTIVE AND EXPERIENCE

The sponsor's goal was to preserve the target date funds as the plan's Qualified Default Investment Alternative (QDIA).

But instead of mapping a participant from one target date fund vintage to its equivalent vintage fund, BlackRock worked with the sponsor to implement a partial reenrollment, where participants were automatically defaulted into the QDIA based on age. This ensured that all transacting participants were placed in a single, age-appropriate target date fund.

To manage participant expectations, BlackRock assisted with a comprehensive, multichannel communication campaign that included transition materials and onsite meetings. Participants could choose to opt out before the reenrollment date, or could change their investment choices after the reenrollment.

The team's expertise in reenrollment was critical to the entire implementation. "Our research and experience on participant behavior, demographics, and opt out patterns was helpful in both the planning and the execution," says Gain.

BRINGING IT ALL TOGETHER

Clearly, there's no secret recipe or magic formula to selecting the right provider. For most sponsors, it comes down to identifying your biggest "pain points," and what type of expertise and support you need to address them.

"In this time of uncertainty, quality and commitment from your provider is important," adds McKinnon. "As this engagement reveals, responsiveness, expertise, and service count for a lot and can make all the difference in whether the relationship results in a long partnership—or an irreconcilable divorce. "

"The biggest takeaway for our team was that planning and bringing ideas to the table is just one element of success," says Bob Gain. "The other was having supportive partners at the table who are on board and will work with you to implement them." ♦

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Published by BlackRock, Inc.

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CTF-0516 5503-PRD_INDIVIDUAL_v04GW_05/13